

FYI ONLY
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Office of Legislative Liaison
Routing Slip

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**EXECUTIVE SECRETARIAT
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11	IG		X		
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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

Executive Registry

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October 15, 1984

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MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: JOSEPH R. WRIGHT, JR.
DEPUTY DIRECTOR

SUBJECT: Second-Year Implementation of the Financial
Integrity Act

Attached is a summary of GAO expectations for second-year implementation of the Federal Managers Financial Integrity Act. The summary was prepared as guidance to the GAO staff for use in assessing the progress made by individual agencies. It was furnished to us by the Comptroller General.

As you know, OMB has been working closely with GAO to ensure early and full implementation of the Act. Our partnership with GAO has the objective of achieving fundamental changes in the way the government operates. We too have high expectations for real accomplishments in upgrading and strengthening systems of internal control and financial management. Under the Administration's Management Improvement Program: Reform '88, this effort coupled with numerous other broad-based management reforms is expected to result in a modernized, efficient government that operates in a business-like manner.

Your continued full support of the efforts in your agency to meet the expectations described in the attached summary is needed to ensure that the management reform objectives are realized at the earliest possible time.

Attachment

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GAO Expectations for Agencies'
Implementation of the Federal Managers'
Financial Integrity Act - Year 2

The first year's implementation of the Federal Managers' Financial Integrity Act has been characterized as a learning experience--from not only the perspective of the federal agencies, but also GAO as well. The process steps required by the legislation, let alone the results that could be expected, were new to many.

For the second year, GAO expects considerably more progress, and we have specified a set of expectations as to what each federal agency should reasonably be able to accomplish as a basis for the assurances supporting their required second year reporting. These second-year expectations are based on what we have learned as a result of our prior experience with internal control and accounting systems in the federal government, our evaluation of the first year's implementation of the act, and specific "baseline" information we developed on each of the 22 agencies during the first year review. They reflect GAO's view that the problems that gave rise to this legislation will not be solved overnight, and therefore we cannot realistically expect full implementation this year. On the other hand, these expectations also reflect our view that it is reasonable for agencies, as a basis for their second year reporting, to begin to demonstrate that effective systems are in place and working, or that significant, cost beneficial improvements in internal controls and accounting systems are being made as a result of this legislation.

GAO's expectations for agencies' second year efforts to implement the act are divided into two groups; one for the act's section 2 requirements (internal controls), and one for the act's section 4 requirements (accounting systems). Annual statements are required for each of these two sections. In addition, while federal agencies have had OMB's final guidelines to direct their required section 2 evaluations since December 1982, the OMB guidance to date concerning their section 4 efforts consists of the OMB September 1983 draft guidelines and several meetings to describe its expectations.

The GAO expectations should be used as "benchmarks" against which to measure agency progress at the end of the second year. The expectations should not be viewed as hard and fast standards. Rather, when evaluating an agency's second year performance, they should be used, along with the progress and problems encountered during the first year, to judge the "reasonableness" of agency progress. Thus, an agency whose performance fails to meet these benchmarks may still be judged to be "reasonable" based on that agency's first year problems or other extenuating circumstances.

Section 4 Expectations

GAO expects that as a basis for their second annual statement required by section 4 of the act, agencies should have:

1. Developed and validated a complete inventory of accounting systems.
2. Documented their overall accounting systems' structure.
3. Developed a reasonable approach to evaluating their accounting systems' conformance with principles, standards, and related requirements (including appropriate testing of system operation).
4. Evaluated their accounting systems' compliance with GAO's principles, standards and related requirements, or at least demonstrated meaningful progress in evaluating their major systems.
5. Made a concerted effort to identify significant instances of noncompliance, or determined that their accounting systems comply, as a result of accounting system evaluations conducted this year (not merely listing known instances of noncompliance identified in GAO or IG reports).
6. Substantially completed corrective actions for instances of noncompliance identified in the first year (i.e., demonstrated significant accounting system improvements). In the event that corrective actions are of a long term nature, initiated major systems upgrade projects that are likely to correct identified problems.
7. Developed reasonable short-term and long-term plans to bring any instances of significant accounting system noncompliance into conformance with requirements.